

Policy and
Oversight



Financial and Performance Audit
Directorate

Quality Control Review

Legislative Audit Bureau of the State of Wisconsin
University of Wisconsin - Madison
Fiscal Year Ended June 30, 1995

Report Number PO 97-047

September 25, 1997

Office of the Inspector General
Department of Defense

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Acronyms

DoD	Department of Defense
GAAS	Generally Accepted Auditing Standards
GAS	Government Auditing Standards
OMB	Office of Management and Budget
R&D	Research and Development
UW-Madison	University of Wisconsin System - Madison



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884



September 25, 1997

Mr. Dale Cattanach
State Auditor
Legislative Audit Bureau
131 West Wilson Street, Suite 402
Madison, Wisconsin 53703

SUBJECT: Quality Control Review of the Legislative Audit Bureau of
the State of Wisconsin
University of Wisconsin - Madison
Fiscal Year Ended June 30, 1995
Report No. PO97-047

Introduction

We are providing this report for your information. Your Madison, Wisconsin, office performed the single audit for the University of Wisconsin - Madison (UW-Madison), Madison, Wisconsin. The UW-Madison is 1 of 13 universities in the University of Wisconsin System. The audit is required by Office of Management and Budget (OMB) Circular A-133, "Audits of Institutions of Higher Education and Other Nonprofit Institutions." For the fiscal year ended June 30, 1995, the UW-Madison reported total Federal expenditures of \$294,538,224, representing \$14,219,587 for the Department of Defense (DoD) and \$280,318,637 for other Federal agencies.

The Legislative Audit Bureau of the State of Wisconsin audit report on UW-Madison, dated October 4, 1996, includes individual reports on internal controls, compliance, and the Schedule of Federal Awards. The auditors issued an unqualified opinion on the financial statements, Schedule of Federal awards, and compliance with specific requirements applicable to major programs. The Legislative Audit Bureau of the State of Wisconsin issued positive and negative assurance statements on compliance with general requirements. Positive assurance states that, with respect to the items tested, the results of the auditors' procedures disclosed no material instances of noncompliance. Negative assurance states that, with respect to the items not tested, nothing came to the auditors' attention that caused them to believe that UW-Madison had not complied in all material respects. The auditors also obtained an understanding of the internal controls related to the financial statements and Federal awards. The

audit report describes the auditor's scope of work in obtaining that understanding and in assessing control risk. The report on internal controls further describes the significant internal controls and control structure, including the controls that provide reasonable assurance that Federal awards are being managed in compliance with applicable laws and regulations.

Quality Control Review Results

The OMB Circular A-133 audit performed by the Legislative Audit Bureau of the State of Wisconsin meets the applicable guidance and regulatory requirements in OMB Circular A-133 and its related Compliance Supplement, which incorporate the Government Auditing Standards (GAS) and Generally Accepted Auditing Standards (GAAS), and the provisions of the Federal award agreements for the financial statements, internal controls, and compliance requirements. The thoroughness of the State auditors work is commendable.

Quality Control Review Objective

The objective of a quality control review is to assure that the audit was conducted in accordance with applicable standards and meets the auditing requirements of OMB Circular A-133. We conducted a quality control review of the Legislative Audit Bureau of the State of Wisconsin audit working papers. We focused our review on the following qualitative aspects of the audit: due professional care, planning, supervision, independence, quality control, internal controls, substantive testing, general and specific compliance testing, and the Schedule of Federal Awards.

We reviewed the most recent peer review letter, dated November 7, 1994, issued by the National State Auditors Association. The peer review found that the Legislative Audit Bureau of the State of Wisconsin met the objectives of the quality control review standards established by the National State Auditors Association and that the standards were being complied with during the fiscal year ended September 30, 1994.

Scope and Methodology

We used the 1991 edition of the Uniform Quality Control Guide for Single Audits (the Guide), which was approved by the President's Council on Integrity and Efficiency as guidance for performing the quality control review procedures. The Guide is organized by the general and field work audit standards and the required elements of a single audit. The Guide is further divided into the substantive work performed during the audit of the financial statements and the specific program compliance testing for major programs. In addition, we supplemented the Guide to include additional review of transaction testing. We conducted our review in August 1997.

We limited the scope of our quality control review to the audit working papers covering areas related to the financial statements and the research and development (R&D) program. The R&D program expenditures were about \$240,281,534 and accounted for 83 percent of Federal award expenditures of the UW-Madison.

Results of Prior Quality Control Reviews

We have not previously conducted a quality control review of the Legislative Audit Bureau of the State of Wisconsin.

Background

The Inspector General Act of 1978, Public Law 95-452, prescribes the duties and responsibilities of that office. In implementing those responsibilities, the Inspector General is required to "take appropriate steps to assure that any work performed by non-Federal auditors complies with the standards established by the Comptroller General."

The Single Audit Act of 1984 (Public Law 98-502) was intended to improve the financial management of state and local governments whose annual expenditures total \$100,000 or more with respect to Federal financial assistance programs; to establish uniform requirements for audits of Federal financial assistance; to promote efficient and effective use of audit resources; and to ensure that Federal departments and agencies rely on and use the audit work done under the Act, to the maximum extent practicable.

The Single Audit Act Amendments of 1996, based on 12 years of experience under the 1984 Act, are intended to strengthen the usefulness of single audits by increasing the audit threshold from \$100,000 to \$300,000 with respect to Federal financial assistance programs before an audit is required under the Act; by selecting programs to be audited on the basis of risk assessment rather than the amount of funds involved; and by improving the contents and timeliness of single audits. The Single Audit Act Amendments of 1996 also bring nonprofit organizations, previously covered by similar requirements, under OMB Circular A-133.

OMB Circular A-133 establishes the Federal audit and reporting requirements for nonprofit and educational institutions whose Federal awards are or exceed \$100,000. It provides that an audit made in accordance with the Circular shall be in lieu of any financial audit required under individual Federal awards. An agency must rely on the audit to the extent that it provides the information and assurances that an agency needs to implement its overall responsibilities. The independent public accountant, Federal auditor, and other non-Federal auditors must consider each other's work in determining the nature, timing, and extent of their respective audit procedures. The Circular also

requires that the cognizant agency obtain or conduct quality control reviews of selected audits made by non-Federal auditors and provide the results, when appropriate, to other interested organizations. When the OMB has not assigned a cognizant agency, then the Federal agency that provides the predominant amount of direct funding to a recipient is designated as the oversight agency. The oversight agency is responsible for providing technical advice to institutions and independent auditors when requested by the recipient and may assume all or some of the responsibilities normally performed by the cognizant agency. The revised Circular was issued June 24, 1997, to incorporate the changes in the Single Audit Act Amendments of 1996. Its provisions apply to audits of fiscal years beginning after June 30, 1996.

Nonmajor Programs

During our quality control review, we reviewed and took exception to the following report.

Independent Auditor's Single Audit Report on Compliance with the Specific Requirements Applicable to NonMajor Program Transactions. If the auditor has selected and tested transactions from nonmajor programs for compliance with the specific requirements applicable to the individual transactions, OMB Circular A-133, paragraph 15(c)(3), then requires the auditor to issue a report on nonmajor programs that provides "a statement of positive assurance on those items that were tested for compliance and negative assurance on those items not tested." Our quality control review showed that for the fiscal year ended June 30, 1995, the auditors selected and tested transactions from nonmajor programs for compliance with the specific requirements applicable to the individual transactions. However, the auditors did not issue a report on compliance with specific requirements applicable to nonmajor program transactions in accordance with OMB Circular A-133, paragraph 15(c)(3), requirements. The Legislative Audit Bureau of the State of Wisconsin subsequently issued the required report for fiscal year ended June 30, 1995. Therefore, no further action is required.

Discussion of Results

During our quality control review, we reviewed and took no exception to the audit work performed that supports the following reports and schedules of the UW-Madison.

Independent Auditor's Report On the Financial Statements. The auditor is required to obtain reasonable assurance about whether the financial statements are free of material misstatement. We reviewed the audit program and the testing of evidential matter to determine whether testing was sufficient, based on assessment of control risk, to warrant the conclusion reached and whether the working papers supported the conclusion.

Independent Auditors' Report on the Schedule of Federal Awards. The auditor is required to subject the schedule to the auditing procedures applicable to the audit of the financial statements and to ensure that the amounts are fairly stated in relation to the basic financial statements. Our review was included in the steps of evaluation of the audit working papers related to the "Independent Auditors' Report."

Independent Auditor's Report on the Internal Control Structure Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. The auditor is required to obtain an understanding of the internal control structure that is sufficient to plan the audit and to assess control risk for the assertions embodied in the financial statements. We reviewed the audit program for the appropriate procedures, the working paper documentation, and the substantive testing performed.

Independent Auditor's Report on Compliance With Laws and Regulations Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards. The auditor is required to determine whether the recipient has complied with laws and regulations that may have a direct and material effect on the determination of financial statement amounts. We reviewed the audit program for the appropriate procedures, the working paper documentation, its support, and the compliance tests performed.

Independent Auditor's Single Audit Report on the Internal Control Structure Used in Administering Federal Programs. The auditor is required to obtain an understanding of the internal control structure used to assess control risk in order to determine whether the auditor intends to place reliance on the internal control structure. The auditor must perform tests of controls to evaluate the effectiveness of the design and operation of the policies and procedures in preventing or detecting material noncompliance, to review the system for monitoring subrecipients and obtaining and acting on subrecipient audit reports, and to determine whether controls are effective to ensure that direct and indirect costs are calculated and billed in accordance with the general requirements in the Compliance Supplement. We reviewed the audit program for the appropriate procedures, the working paper documentation, and the tests of controls performed.

Independent Auditor's Single Audit Report on Compliance With the General Requirements Applicable To Federal Programs. The auditor is required to determine whether the recipient has complied with laws and regulations that may have a direct and material effect on any of its major Federal programs. General requirements are those that could have a material effect on the recipient's financial statements including those prepared for Federal programs. The auditors' procedures were limited to those prescribed in the OMB Circular A-133 Compliance Supplement. We reviewed the audit program for the appropriate procedures, compared the audit program steps to

those in the Compliance Supplement to make sure that all areas were audited, reviewed the working paper documentation and its support, reviewed the compliance tests performed, and reevaluated selected compliance items.

Independent Auditor's Single Audit Report on Compliance With the Specific Requirements Applicable to Major Federal Program. The auditor is required to determine whether the recipient has complied with laws and regulations that may have a direct and material effect on its major Federal programs. The requirements included types of services allowed or unallowed; eligibility; matching, level of effort, and/or earmarking requirements; special reporting requirements; and special tests and provisions. We reviewed the audit program for the appropriate procedures, compared the audit program steps to those in the Compliance Supplement to make sure that all areas are audited, reviewed the working paper documentation and its support, reviewed the compliance tests performed, and reevaluated selected compliance items.

Schedule of Findings and Questioned Costs. The auditor is not required to but may report immaterial findings in the audit report or to the recipient in writing in a separate communication. The recipient is responsible for forwarding the findings to the Federal grantor agencies. We traced the findings in the working papers to the audit report to make sure that it included all findings identified in the working papers and that the findings were properly supported. The report contained four repeat immaterial findings concerning allowable costs, effort reporting, property management, and subrecipient monitoring. A complete list of all the findings is in Enclosure 1.

Comments

We appreciate the courtesies extended during the review. If you have questions on this report, please contact Mrs. Barbara Smolenyak, Program Director, at (703) 604-8761 or Mr. Sunil R. Kadam at (703) 604-8735. The report distribution is in Enclosure 2.



Russell A. Rau
Assistant Inspector General
Policy and Oversight

Enclosures

University of Wisconsin System - Madison
Fiscal Year Ended June 30, 1995

Schedule Of Findings and Questioned Costs

<u>Report Page No.</u>	<u>Finding</u>	<u>Amount Questioned</u>	<u>Agency</u>
22	Lack of Financial Status Report	\$0	DoD
23	Inaccurate Invoicing	\$0	NASA
23	Timeliness of Financial Reports	\$0	HHS
24	Insurance Rebates *	\$287,229	USDA
27	Charging to Wrong Grant	\$0	HHS
27	Supplies Charged to Wrong Grant	\$29	HHS
27	Costs After the Grant Period	\$0	USDA
28	Effort Reporting *	\$0	HHS
30	Property Management *	\$0	HHS
31	Cost Sharing	\$0	DoD
32	Subrecipient Monitoring *	\$0	HHS
33	Davis Bacon Act	\$0	HHS
34	Timeliness of Refunds and Overpayments	\$0	DoE

* Repeat of similar findings made in prior fiscal year.

Acronyms

USDA	United States Department of Agriculture
DoD	Department of Defense
DoE	Department of Education
HHS	Department of Health and Human Services
NASA	National Aeronautics and Space Administration

Enclosure 1

**University of Wisconsin System - Madison
Fiscal Year Ended June 30, 1995**

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Enclosure 2

Evaluation Team Members

This report was prepared by the Financial and Performance Audit Directorate,
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